

## Capital Adequacy (E) Task Force RBC Proposal Form

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|---|--|---|
| <input type="checkbox"/> Capital Adequacy (E) Task Force                      | <input checked="" type="checkbox"/> Health RBC (E) Working Group | <input type="checkbox"/> Life RBC (E) Working Group                         |
| <input type="checkbox"/> Catastrophe Risk (E) Subgroup                        | <input type="checkbox"/> P/C RBC (E) Working Group               | <input type="checkbox"/> Longevity Risk (A/E) Subgroup                      |
| <input type="checkbox"/> Variable Annuities Capital. & Reserve (E/A) Subgroup | <input type="checkbox"/> Economic Scenarios (E/A) Subgroup       | <input type="checkbox"/> RBC Investment Risk & Evaluation (E) Working Group |

<p style="text-align: right;">DATE: <u>6-6-24</u></p> <p><b>CONTACT PERSON:</b> <u>Maggie Chang</u></p> <p><b>TELEPHONE:</b> <u>816-783-8976</u></p> <p><b>EMAIL ADDRESS:</b> <u>mchang@naic.org</u></p> <p><b>ON BEHALF OF:</b> <u>Health Risk-Based Capital (E) Working Group</u></p> <p><b>NAME:</b> <u>Steve Drutz</u></p> <p><b>TITLE:</b> <u>Chief Financial Analyst/Chair</u></p> <p><b>AFFILIATION:</b> <u>WA Office of Insurance Commissioner</u></p> <p><b>ADDRESS:</b> <u>5000 Capitol Blvd SE</u> <u>Tumwater, WA 98501</u></p>	<p style="text-align: center;"><b>FOR NAIC USE ONLY</b></p> <p>Agenda Item # <u>2024-12-H-MOD</u> Year <u>2024</u></p> <p style="text-align: center;"><b>DISPOSITION</b></p> <p><b>ADOPTED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) <u>6/28/24</u></p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>6/25/24</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>EXPOSED:</b></p> <p><input type="checkbox"/> TASK FORCE (TF) _____</p> <p><input checked="" type="checkbox"/> WORKING GROUP (WG) <u>6/6/24</u></p> <p><input type="checkbox"/> SUBGROUP (SG) _____</p> <p><b>REJECTED:</b></p> <p><input type="checkbox"/> TF <input type="checkbox"/> WG <input type="checkbox"/> SG _____</p> <p><b>OTHER:</b></p> <p><input type="checkbox"/> DEFERRED TO _____</p> <p><input type="checkbox"/> REFERRED TO OTHER NAIC GROUP _____</p> <p><input type="checkbox"/> (SPECIFY) _____</p>
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### IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

- |   |   |  |
|---|---|--|
| <input checked="" type="checkbox"/> Health RBC Blanks       | <input type="checkbox"/> Property/Casualty RBC Blanks       | <input type="checkbox"/> Life and Fraternal RBC Blanks       |
| <input checked="" type="checkbox"/> Health RBC Instructions | <input type="checkbox"/> Property/Casualty RBC Instructions | <input type="checkbox"/> Life and Fraternal RBC Instructions |
| <input checked="" type="checkbox"/> Health RBC Formula      | <input type="checkbox"/> Property/Casualty RBC Formula      | <input type="checkbox"/> Life and Fraternal RBC Formula      |
| <input type="checkbox"/> OTHER _____                        |   |  |

### DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Adjust the health care receivable factors in XR021 to include a tiered adjustment.

### Additional Staff Comments:

6/6/24 – Modified from Proposal 2024-12-H, to apply tiered factor on non-pharmaceutical rebate receivables in aggregate (i.e., aggregation of Claim Overpayment Receivables, Loan and Advances to Providers, Capitation Arrangement Receivables, Risk Sharing Receivables and Other Health Care Receivables). The Working Group directed re-expose for 14-day public comment period ending 6/20/24.

6/25/24 – The Working Group conducted an e-vote to adopt this proposal.

**\*\* This section must be completed on all forms.**

**Revised 2-2023**

## Other Receivables – L(25) through L(31)

There is an RBC requirement of 1 percent of the annual statement amount of investment income receivable and an RBC requirement of 5 percent of the annual statement amount for ~~pharmaceutical rebates and~~ amounts due from parents, subsidiaries, and affiliates, and aggregate write-ins for other than invested assets. ~~The RBC requirement for pharmaceutical rebates receivables is 20 percent of the first \$5 million and a 3 percent charge will be applied to the amount in excess. and~~ ~~a~~ ~~An RBC requirement of 19-40 percent of is applied to the first \$10 million of the aggregated annual statement amount and 5 percent will be applied to the amounts in excess of the \$10 million the annual statement amount~~ for all other health care receivables reported in Lines (26.2) through (26.6) [in aggregate](#). Enter the appropriate value in Lines (25) through (31).

Line (26.1). Pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies. These rebates are sometimes recorded as receivables by reporting entities using estimates based upon historical trends which should be adjusted to reflect significant variables involved in the calculation, such as number of prescriptions written/filled, type of drugs prescribed, use of generic vs. brand-name drugs, etc. In other cases, the reporting entity determines the amount of the rebate due based on the actual use of various prescription drugs during the accumulation period and then bills the pharmaceutical company. Oftentimes, a pharmacy benefits management company may determine the amount of the rebate based on a listing (of prescription drugs filled) prepared for the reporting entity's review. The reporting entity will confirm the listing and the pharmaceutical rebate receivable. Pharmaceutical rebates may relate to insured plans or uninsured plans. Only the receivable amount related to the insured plans should be reported on this line. Amount comes from annual statement Exhibit 3, Column 7, Line 0199999.

Line (26.2). Claim overpayments may occur as a result of several events, including but not limited to claim payments made in error to a provider. Reporting entities often establish receivables for claim overpayments. Amount comes from annual statement Exhibit 3, Column 7, Line 0299999.

Line (26.3). A health entity may make loans or advances to large hospitals or other providers. Such loans or advances are supported by legally enforceable contracts and are generally entered into at the request of the provider. In many cases, loans or advances are paid monthly and are intended to represent one month of fee-for-service claims activity with the respective provider. Amount comes from annual statement Exhibit 3, Column 7, Line 0399999.

Line (26.4). A capitation arrangement is a compensation plan used in connection with some managed care contracts in which a physician or other medical provider is paid a flat amount, usually on a monthly basis, for each subscriber who has elected to use that physician or medical provider. In some instances, advances are made to a provider under a capitation arrangement in anticipation of future services. Amount comes from annual statement Exhibit 3, Column 7, Line 0499999.

Line (26.5). Risk sharing agreements are contracts between reporting entities and providers with a risk sharing element based upon utilization. The compensation payments for risk sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used in estimating the monthly compensation. Amount comes from annual statement Exhibit 3, Column 7, Line 0599999.

Line (26.6). Any other health care receivable not reported in Lines (26.1) through (26.5). Amount comes from annual statement Exhibit 3, Column 7, Line 0699999.

Line (27). Only include on this line amounts receivable related to pharmaceutical rebates on uninsured plans that are in excess of the liability estimated by the reporting entity for the portion of such rebates due to the uninsured accident and health plans.

Other Receivables	Annual Statement Source	(1)	(2)
		Amount	Factor RBC Requirement
(25) Investment Income Receivable	Page 2, Column 3, Line 14		0.010 \$0
(26) Health Care Receivables	Exhibit 3, Column 7, Line 0799999		
(26.1) Pharmaceutical Rebate Receivables	Exhibit 3, Column 7, Line 0199999	*	\$0 =MAX(0,ROUND((IF(F6<=5000000,F6*0.2,(5000000*0.2)+((F6-5000000)*0.03)),0))
(26.2) Claim Overpayment Receivables	Exhibit 3, Column 7, Line 0299999	**	\$0 =MAX(0,ROUND((IF(F7<=10000000,F7*0.4,(10000000*0.4)+((F7-10000000)*0.05)),0))
(26.3) Loan and Advances to Providers	Exhibit 3, Column 7, Line 0399999	**	\$0 =MAX(0,ROUND((IF(F8+F7<=10000000,F8*0.4,(10000000*0.4)+((F8+F7)-10000000)*0.05)-H7),0))
(26.4) Capitation Arrangement Receivables	Exhibit 3, Column 7, Line 0499999	**	\$0 =MAX(0,ROUND((IF(F8+F7<=10000000,F9*0.4,(10000000*0.4)+((F9+F8+F7)-10000000)*0.05)-SUM(H7:H8)),0))
(26.5) Risk Sharing Receivables	Exhibit 3, Column 7, Line 0599999	**	\$0 =MAX(0,ROUND((IF(F10+F9+F8+F7<=10000000,F10*0.4,(10000000*0.4)+((F10+F9+F8+F7)-10000000)*0.05))-SUM(H7:H9),0))
(26.6) Other Health Care Receivables	Exhibit 3, Column 7, Line 0699999	**	\$0 =MAX(0,ROUND((IF(F11+F10+F9+F8+F7<=10000000,F11*0.4,(10000000*0.4)+((F11+F10+F9+F8+F7)-10000000)*0.05)-SUM(H7:H10)),0))
(27) Amounts Receivable Relating to Uninsured Accident and Health Plans	Included in Page 2, Column 3, Line 17		0.050 \$0
(28) Amounts Due from Parents, Subs, and Affiliates	Page 2, Column 3, Line 23		0.050 \$0
(29) Aggregate Write-Ins For Other Than Invested Assets	Page 2, Column 3, Line 25		0.050 \$0
(30) Total Other Receivables RBC	Line (25) + Sum Lines (26.1) through (29)		\$0
(31) Total Credit RBC	Lines (17) + (24) + (30)		\$0

\* Line (26.1) Pharmaceutical Rebates - A factor of .200 will be applied to the first \$5,000,000 in Column (1), and a factor of .030 will be applied to the remaining amount in excess of \$5,000,000.  
\*\*Lines (26.2) - (26.6) Non-Pharmaceutical Rebates - These lines are aggregated first and a factor of .400 will be applied to the first \$10,000,000 in Column (1) and a factor of .050 will be applied to the remaining amount in excess of \$10,000,000.